



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., May 27, 2008. The following members were present:

Chairman Jody B. Olson
Cliff Hayes
Bill Deal
Jeff Cilek
J. Kirk Sullivan

Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Joanna Guilfooy, Financial Officer James Monroe, and Management Assistant Cheri Campbell were also in attendance. Betsy Griffith handled the electronic projection of materials and documents discussed in the meeting. Other persons attending portions of the meeting were:

Geoff Bridges	Milliman
Mark Olleman	Milliman
Robert Schmidt	Milliman
Kevin Jones	DBF
Cody Barney	DBF
Drew Black	DBF
Dennis Fitzpatrick	DBF
Brian McGrath	DBF
Michael O'Leary	Callan
Robin Nettinga	IEA
Jim Shackelford	IEA
David McManaman	Capmark Financial
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Lucinda Smith	BNY Mellon
Doug Bates	Clearwater

Phil Bartlett	Clearwater
Patrice Perow	PERSI
Judy Aitken	PERSI
Diane Kaiser	PERSI
Debbie Buck	PERSI
Cecile McMonigle	PERSI

EXECUTIVE SESSION

Citing Idaho Code §67-2345(b) which authorizes an Executive Session to discuss personnel matters, by motion duly made by Trustee Deal and seconded by Trustee Sullivan and approved unanimously, the Board convened in Executive Session at 8:30 a.m. They reconvened in regular session at 8:35 a.m. During the session, they discussed the Performance Evaluation and pay increase for Executive Director Winkle. Trustee Hayes made a motion to increase Mr. Winkle's salary by 5% effective July 1, 2008. Motion was seconded by Trustee Sullivan and approved unanimously. Chairman Olson complimented Director Winkle on the success of the past year at PERSI and expressed the appreciation of the Board Members.

MINUTES

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Deal, the Board unanimously approved the minutes of both the April 22, 2008 and May 5, 2008 meetings as presented.

PORTFOLIO

Callan Quarterly Report: Michael O'Leary reviewed the performance of the fund for the period ending March 31, 2008. During that period, PERSI outperformed its target policy index for the quarter and for the trailing 12-month period. The Board's important strategic decisions had positive impacts for the full year and were mixed for the quarter. Emerging markets and TIPS helped results for both the quarter and year while REITS helped in the quarter but hurt for the year. Direct real estate helped in both periods as did private equity. The emerging markets emphasis within the international component of the portfolio was a strong positive for both the quarter and trailing 12-months. The composite of emerging markets managers returned -7.96% for the quarter and an excellent +17.42% for the year. These returns were significantly better than the returns for developed international markets. Global equity managers registered lower than the global benchmark returns for the quarter and the trailing 12-months. Publicly traded domestic equity composite modestly outpaced the Russell 3000 benchmark returns for the quarter and lagged for the trailing 1-year period. PERSI's real estate investments helped total returns in the quarter and year. The fixed income portfolio outperformed the broad bond market for the quarter. The trailing 12-month result also exceeded the benchmarks.

DC Stable Value Fund Update:

Mr. O'Leary also discussed the PERSI DC plan SEI Stable Value Fund. He explained the mechanics of a stable value fund. Stable value funds are a less volatile investment and are good for people who want a 'least' risky option. The SEI fund is slightly lower than benchmark for the year and very close to benchmark for the quarter. In response to a question from Chairman Olson, Mr. O'Leary explained that the Stable Value fund returns are significantly higher than Treasury Bills. They are a reasonably safe alternative for which incremental risk is paid off with incremental return.

Monthly Investment Report: Chief Investment Officer Robert Maynard reminded those present that the Investment Manager meeting will be held June 17-19, 2008.

Mr. Maynard reviewed his Investment Report dated May 23, 2008, an update to the May 19, 2008 version previously provided to the Board. The capital market rally that began in April continued into the first half of May and then retreated within the last week. The financial and liquidity crisis seems largely to have peaked in March and eased since the Fed action to rescue Bear Stearns. The capital market focus is increasingly on the extent and depth of the economic slowdown in the US and, to some lesser extent, in Europe and Asia, with increasing concerns about the status of energy prices, other commodity prices (particularly a heightened concern with food) and inflation. Equity markets worldwide are up slightly for the month, led by a strong emerging market bounce back after a miserable March. Fixed income for the month to date is slightly positive. The total fund is up 0.3% for the month to date, and up 0.6% for the fiscal year to date (down -1.7% for the calendar year to date), at \$11.49 billion.

For the fiscal year to date, private equity and private real estate, fixed income, and emerging markets are up for the fiscal year, while US and international developed equities are down. Treasuries, TIPs, and Idaho Mortgages are doing very well and are up over 14% for the fiscal year to date.

Private equity, Barings Global Equity, Fortis, and Mtn Pacific are the leading performers against benchmark. Donald Smith, Adelante, and Bernstein (both emerging markets and global), Genesis, and Brandes are substantially trailing their benchmarks. Western and Fidelity fixed income are also substantially behind their benchmarks. Peregrine has had a particularly disappointing period given their large cap growth style, which is an area that generally has had relative outperformance.

PERSI is ahead of the strategic benchmark for the fiscal year to date, by 2.21%. Strategic weights to private equity, emerging markets, the Idaho Mortgage program, and TIPS are the major reason. Collective active management is negative and, for the first time in quite a while, global active management is hurting, rather than helping, returns. PERSI has generally been even with the strategic benchmark since January.

Investment Manager Comments:

Rod MacKinnon, Mountain Pacific Investment Advisors, said equity is key for the year. Corporate earnings outside the financial industry are good. However, we have a risk of stagflation due to higher utility and gas prices.

Doug Bates with Clearwater, said fixed income has normalized/stabilized and available credit is expanding. This has led to a notion that the market has bottomed out. The housing cycle has seen some pretty intense flattening of the 2 to 10 year curve. Believes that there is little probability that the feds will decrease interest again and a higher probability that they will start to increase rates. There is continued stress on the economy with the housing crisis, which is not over yet, and continued concerns regarding inflation.

Mike O'Leary stated that the current optimism comes from equity valuations; they're not super cheap, but they're comparatively attractive. He is pleased to see that earnings outside the finance sector are doing well. There are some early indicators that some of the problems have passed.

Staff Advisor Update:

Robert Maynard presented the Trustees with a proposal for adding contracted staff investment advisors to the program. He proposes hiring two outside advisors to assist staff in overseeing the portfolio. These positions would report to the staff rather than the Board. Bob and Richelle would continue to do the same things they do now but would rely on the advisors to provide oversight for the public equity and bond managers. Resumes for two candidates were provided to the Board. A formal request will be presented to the Board at the July meeting.

Idaho Commercial Mortgage Report:

David McManaman of Capmark reviewed his report previously provided to the Trustees. He described the process used to review the Idaho Commercial Mortgage Program operated by DBF. Capmark's review included an evaluation of the management, administration and relative performance of the commercial mortgage investment program sponsored by PERSI consistent with the scope of the evaluation completed in previous years. The review process included an evaluation of the administrative procedures, management processes and activities, inspection of portfolio reports, investment files, loan documents, underwriting reports, operating statements, and in some cases, physical inspections of the underlying loan collateral. The review included an assessment of DBF's performance as a primary servicer for PERSI. Additionally, Capmark conducted interviews with DBF staff, third party investment managers and lenders, as well as interviews with CMP borrowers.

A general summary of Capmark's findings indicate the administration, management and performance for calendar year 2007, equaled or exceeded the performance of similarly focused commercial real estate mortgage/whole

loan origination and investment programs. The PERSI commercial mortgage program's general business and mortgage investment activities for 2007 and the resulting performance was consistent with previous year-end evaluations.

DBF Comments on Idaho Commercial Mortgage Program:

In conjunction with Mr. McManaman's review, representatives from DBF presented their overview of the program. They reviewed their long-term investment objectives, scope of responsibility and details on the Commercial Mortgage and Mortgage-Backed Securities Portfolios. Mr. Fitzpatrick reviewed the long term investment objectives and the overall performance of the portfolio. The portfolio has no delinquencies and has not had a foreclosure in eleven years. The combined portfolio assets as of April 30, 2008 were \$513,113,634.92. Mr. Black explained how they plan to expand to different parts of the state. He also covered the weighted average loan attributes, which has increased in all areas. Cody Barney reviewed the fund performance and the investment strategy for 2008. Brian McGrath reviewed the economic outlook and stated that PERSI has provided needed liquidity to the state market and is now in a position to pick and choose investments. Chairman Olson requested that next year a breakdown of fees charged be presented. DBF Staff explained that they have no control over Broker fees.; each Broker charges different rates and DBF cannot set this fee.

MILLIMAN EXPERIENCE STUDY:

Mark Olleman, Robert Schmidt and Geoff Bridges provided a review of the Active Members Experience and Economic Assumption Study completed by Milliman as of June 30, 2007. The study covers the period from July 1, 2003 to June 30, 2007. This presentation was for educational purposes. Changes in demographic and economic assumptions were placed before the Board for consideration and will be on the Board agenda for decision in July.

EXECUTIVE DIRECTOR UPDATES

Executive Director's Status Report: Director Winkle reviewed his status report previously provided to the Trustees. He provided an update on the Calvert Fund, FRF Funding and the status of the IRS determination letter for the Choice 401(k) Plan. The legislature established a new State agency, Office of Energy Resources. No action was need since they are a mandatory employer. Mr. Winkle updated the Trustee's on the Feasibility Study for the 820 Washington property. He will deliver a copy to each Trustee individually and review in depth at that time.

Appeal of Director's Decision – Whitmore:

Mr. Jerry Whitmore requested an appeal of Director Winkle's decision regarding the reduction of his contingent annuitant benefit from his deceased wife. Mrs. Whitmore chose the social security retirement option and Mr. Whitmore's monthly benefit was reduced as required by Idaho Code 59-1351(d) on February 1, 2007.

On January 26, 2004, a computer-generated letter was sent to Mr. Whitmore, shortly after Mrs. Whitmore had died, erroneously stating the full amount of the benefit would continue for his lifetime. Several subsequent letters were sent explaining this error to Mr. Whitmore.

The staff recommended that the appeal be denied and staff calculations be upheld. Deputy Attorney General Joanna Guilfooy stated that to do otherwise would violate Idaho law. Trustee Deal made a motion to concur with staff recommendation and uphold the decision of Director Winkle. Trustee Cilek seconded the motion which passed unanimously.

Deputy Director's Status Update: Deputy Director Don Drum reviewed the status report for the PERSI business operations. He updated the Trustees on the changes made to the Galena system in the past years. He then reviewed the Request for Information for an assessment of the entire IT department. Five responses have been received. Out of these five, one withdrew, one had a conflict of interest and the other three are being looked at, including two local companies.

FISCAL

Fiscal Update: Financial Officer Jim Monroe reviewed the report dated May 16, 2008 that was previously distributed to the members. The Executive Staff continue to work on the final compensation plan and distribution grid for the CEC merit increases. Staff are discussing an extension of the global custody agreement with BNY Mellon. They expect the new agreement will be under the same terms and at an acceptable fee.

Expense Reports: Mr. Monroe reviewed the Administrative, and Portfolio Budget reports for April that were previously provided to the members. He reported that in total the expenses compared to budget are on track for the time of year.

Quarterly Financial Statements:

Sr. Accountant, Debbie Buck, asked the Trustees if there were any questions about the Quarterly Financial Statements that were previously provided to the members. She pointed out the change in plan net assets which have increased by \$213,962,457 over FY07.

Future Board Meetings

Mr. Maynard provided an overview of the schedule for the June Investment Manager Conference. When asked what the Trustees role will be at the conference he stated that their role will be to listen and participate as they see fit, asking questions and bringing up topics that they would like to discuss.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:45 a.m.

Alan H. Winkle
Executive Director

Jody B. Olson
Chairman